

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 99-112

April 2, 1999

CENTRAL MAINE POWER COMPANY
Customer Service Agreement with
Mead Oxford Corporation

ORDER APPROVING
CONTRACT

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY OF DECISION

By this Order, the Commission authorizes Central Maine Power Company (CMP) to enter into the proposed discount rate contract with Mead Oxford Corporation (Mead).

II. PROCEDURAL HISTORY

On March 1, 1999, CMP filed with this Commission a proposed customer service agreement (CSA) with Mead. In a letter filed with the Commission on March 11, 1999, the Company requested that the Commission review this contract pursuant to Attachment F, Section III of its Alternative Rate Plan (ARP)¹. Consistent with the ARP, CMP notified appropriate customers of the filing and their opportunity to file comments with the Commission regarding the contract. No comments were received by the March 25, 1999 deadline.² On March 19, 1999, the Commission held an informal technical conference in this proceeding, attended by the Office of the Public Advocate (OPA), CMP and Mead.

III. DISCUSSION

Under CMP's ARP, contracts that meet specified criteria, including certain marginal cost tests, become effective automatically 30-days after being filed with the Commission. The Mead CSA, however, does not pass the marginal cost tests required under the ARP, and therefore requires Commission approval to become effective. Under the ARP, the Commission has 4 months to conduct a review of contracts that fail the applicable criteria. However, the Mead CSA contains a provision that allows either party to terminate the agreement if Commission approval is not obtained by April 2, 1999. In keeping with this deadline, we have conducted a summary investigation of the

¹CMP originally requested that it be reviewed pursuant to 35-A M.R.S.A. Section 703 but modified this request in response to Commission Staffs' comments.

²Pursuant to the ARP, interested persons have 14 days from the date the contract is filed with the Commission to file comments. However, CMP did not request review under the ARP until March 11, 1999 so the deadline for comments was March 25, 1999 rather than March 15, 1999.

contract. Based on this limited review, we have not identified sufficient reason to disapprove it and will therefore allow CMP to enter into the contract. However, we have identified several aspects of the contract that concern us.

We are concerned that the level of contribution provided to CMP under the contract may be so low that it does not adequately offset the risk that CMP could have received more revenue from Mead without the contract. We are persuaded that Mead's self-generation option is a viable alternative to taking regular tariff-rate service from CMP. However, relatively small changes in assumptions -- such as the date Mead would be able to begin self-generating and the level and timing of standby service Mead would have purchased absent the contract -- have significant effects on the benefits of the contract. Our concern with the level of revenue contribution is compounded by a provision in the contract that causes the revenue to CMP to be even lower if Mead is ultimately charged for transmission service based on its full potential load, not its full load net of self-generation. At this time, it is not clear how FERC will price such transmission service. If FERC employs the former method rather than the latter, CMP's revenues under the contract could be significantly reduced.

Based on our preliminary estimates, and assuming that FERC will price transmission service net of self-generation, under the contract CMP would receive between \$6.5 and \$7 million, net present value (NPV), over the contract term. Assuming that without the contract Mead would have been able to self-generate its entire electricity needs as soon as its ARP contract expires on December 31, 1999 and that Mead would not have purchased any standby service from CMP, this is revenue that CMP would not otherwise receive. However, if Mead would not immediately and fully self-generate its electricity needs over the contract term, Mead would provide revenue at tariff rates for either full requirements or standby service, or both. Under various plausible scenarios, the benefits from the contract are only marginal. For example, if we assume that Mead would not self-generate until mid-2000 and would purchase a moderate amount of standby service, our analysis indicates that CMP could receive between \$4M and \$6M in NPV revenue without entering into the contract. Any benefits would be further reduced, and could even become negative, if Mead did not self-generate until sometime after mid-2000 and/or relied more heavily on CMP for standby service.

This analysis highlights our concern that as the revenue contribution from special rate contracts decreases, the risk that the discounts do not provide benefits to ratepayers increases. At some point, the contribution from a discount contract may become so small that it does not outweigh the risk that ratepayers will be as-well, or better-off, without the contract.

Notwithstanding our concerns, we will allow CMP to enter into the Mead CSA. Although the revenue contribution from this contract is small, we grant such authorization because we find, on balance, that Mead will likely provide more revenue with the contract than without it, and because the certainty of revenues under the contract is, in itself, of some benefit. Consistent with the discussion in the Phase I

Order of Docket No. 97-580, the ratemaking treatment for this and other contracts entered into by CMP after the issuance of the Phase I Order in Docket 97-580 will be determined in Phase II of that proceeding. As described in the 97-580 Order, we will generally rely on the level of discounts achieved under the ARP³ but do not, at this time, make any determination regarding the ratemaking treatment of further discounts.

We allow this contract to go forward premised on the understanding that the language in Article II, Section (a) of the contract is intended only to require that in the future, CMP treat Mead as it would any other, similarly situated customer. We do not read this provision to prohibit stranded cost charges applicable to such customers from being charged to Mead. CMP and Mead confirmed that our interpretation of this provision is consistent with the parties' intent.

Accordingly, we

O R D E R

1. That Central Maine Power Company is authorized to enter into the proposed Customer Service Agreement with Mead Oxford Corporation as filed with the Commission on March 1, 1999.

Dated at Augusta, Maine this 2nd day of April, 1999.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Nugent
 Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of

³Mead (formerly known as Boise Cascade Corporation) has a current discount contract that was entered into pursuant to the ARP and allowed to go into effect by Commission Order dated January 6, 1995 in Docket No. 92-345(II). That contract expires on December 31, 1999. The proposed CSA will go into effect January 1, 2000 and provides significantly less revenue contribution to CMP than the contract currently in effect.

review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320 (1)-(4) and the Maine Rules of Civil Procedure, Rule 73 et seq.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320 (5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.